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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

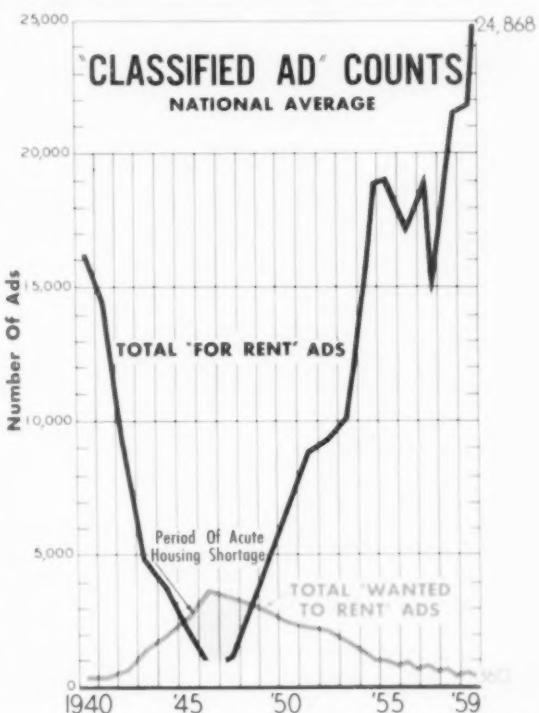
PRICES AND RENTS

OUR selling price index of an existing house and lot increased 2.6 percent during the last 12 months. Rents have increased 1.4 percent, and the price of agricultural land 5 percent during the same period. These figures are charted on pages 569, 567, and 565, respectively. The important forces behind these changes in real estate prices and rents are income, interest rates, building costs, household formation, and vacancy rates.

Clearly, there is no housing shortage as there was in the 1940's. The chart below shows our total count of "For rent" and "Wanted to rent" ads in May and October each year from newspapers all over the United States. The number of "For rent" ads has been rising steeply, while the "Wanted to rent" ads have been falling in volume. This study complements the vacancy rate data that we published in this bulletin last month.

Personal Income is one of the most important factors in the demand for real estate. After all, if there is no income, there will be no sale, even if the house or land is needed. From November 1958 to November 1959 Personal Income in the United States increased by 5 percent.

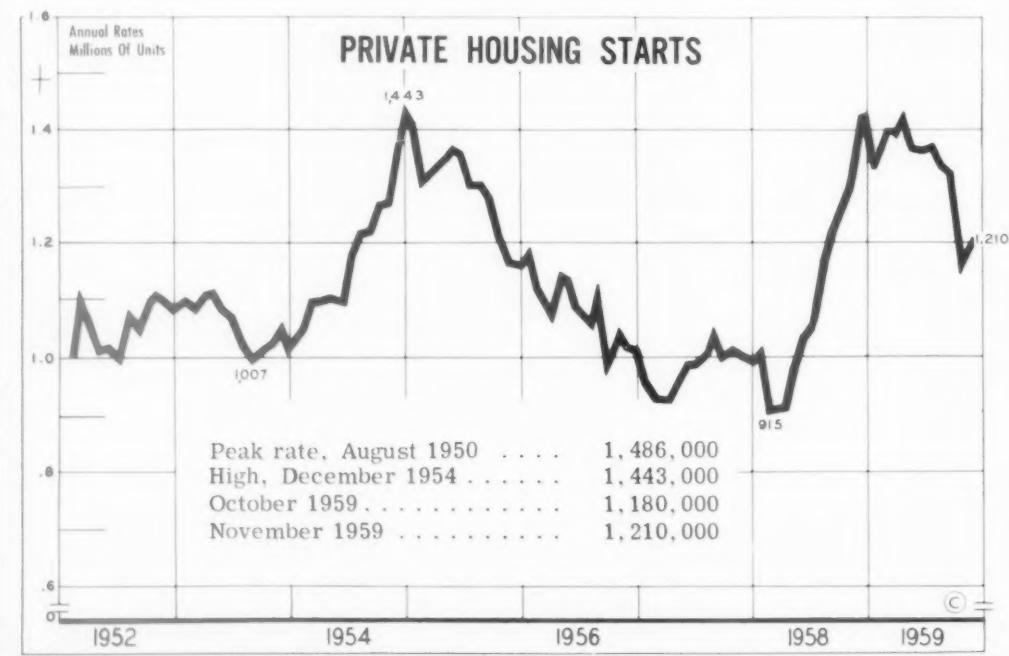
On the surface it would seem that the fall in prices received by farmers would prevent agricultural land prices from rising. Although Gross Farm Income is falling from its 1958 high of \$38.3 billion, it is still higher than for each of the years 1953 through 1957. The average gross farm income (seasonally adjusted annual rate) for the first 3 quarters of 1959 was \$37 billion. Not only is total farm in-



come high, but individual farm incomes are higher because of the decrease in the number of farms from 6.4 million in 1940 to 4.7 million in 1958. In 20 years the productivity of farmers has increased so that one man can now farm more land than before. About 43 percent of all farm real estate transfers in 1958-59 were for the purpose of enlarging another farm. The result has been an increase in the average acreage per farm from 174 acres in 1940 to 242 acres in 1954, the last figure available.

Most sales of real estate require a mortgage. Therefore, the prevailing interest rate on mortgage finance becomes an important cost to the purchaser. Because of the extremely tight money situation our average mortgage interest rate for 10 major cities increased to 5.97 percent this month. This includes VA and FHA mortgages at their legal maximum yields. According to FHA, the interest rate on conventional first mortgages was 6.10 percent for the United States as of October 1. This factor may have prevented prices from rising faster than they have.

The number of voluntary real estate transfers per 10,000 families is 6.4 percent below the long-term computed normal. In June it was 5.9 percent above normal. This slide has been due partly to the tight money situation, and partly to the steel strike. Total unadjusted transfers for the first 11 months of 1959, nevertheless, are 12.5 percent greater than for the first 11 months of 1958 and only 2.9 percent less than the first 11 months of 1955, which was an exceptionally good year. So why are the figures for 1959 so close to normal



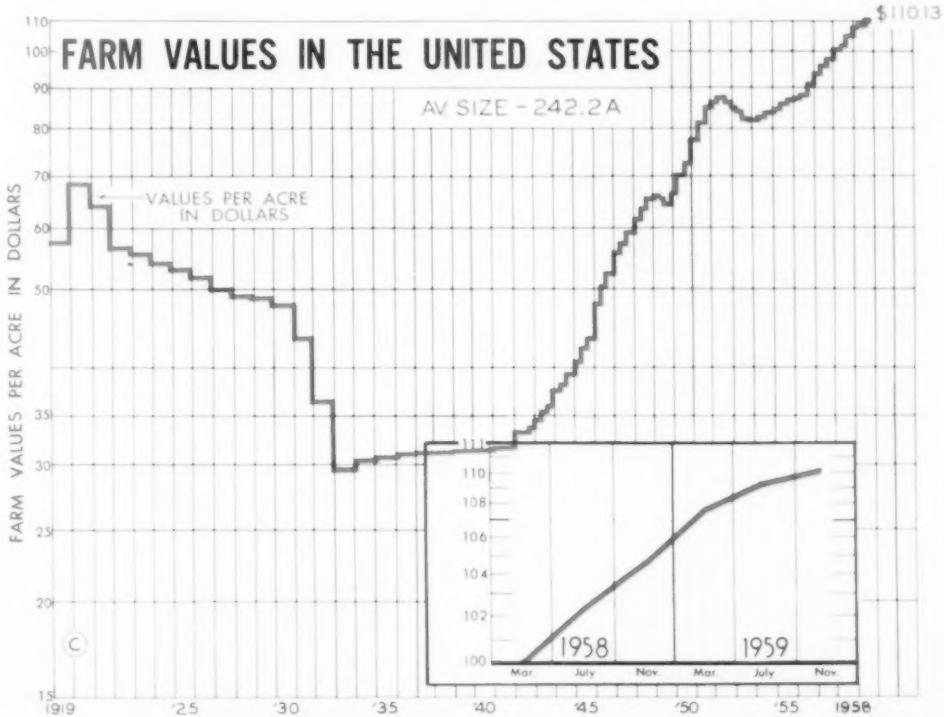
**AVERAGE INTEREST RATE OF RECORDED MORTGAGES
IN 12 MAJOR CITIES OF THE UNITED STATES**

Jan. '54	5.187%	Jan. '56	5.105%	Jan. '58	5.775%	May '59	5.690%
Apr. '54	5.173	Apr. '56	5.157	Apr. '58	5.813	June '59	5.681
July '54	5.089	July '56	5.141	July '58	5.664	July '59	5.692
Oct. '54	5.092	Oct. '56	5.229	Oct. '58	5.631	Aug. '59	5.720
Jan. '55	5.045	Jan. '57	5.363	Jan. '59	5.717	Sept. '59	5.787
Apr. '55	5.079	Apr. '57	5.507	Feb. '59	5.723	Oct. '59	5.908
July '55	5.050	July '57	5.501	Mar. '59	5.714	Nov. '59	5.974
Oct. '55	5.055	Oct. '57	5.602	Apr. '59	5.706		

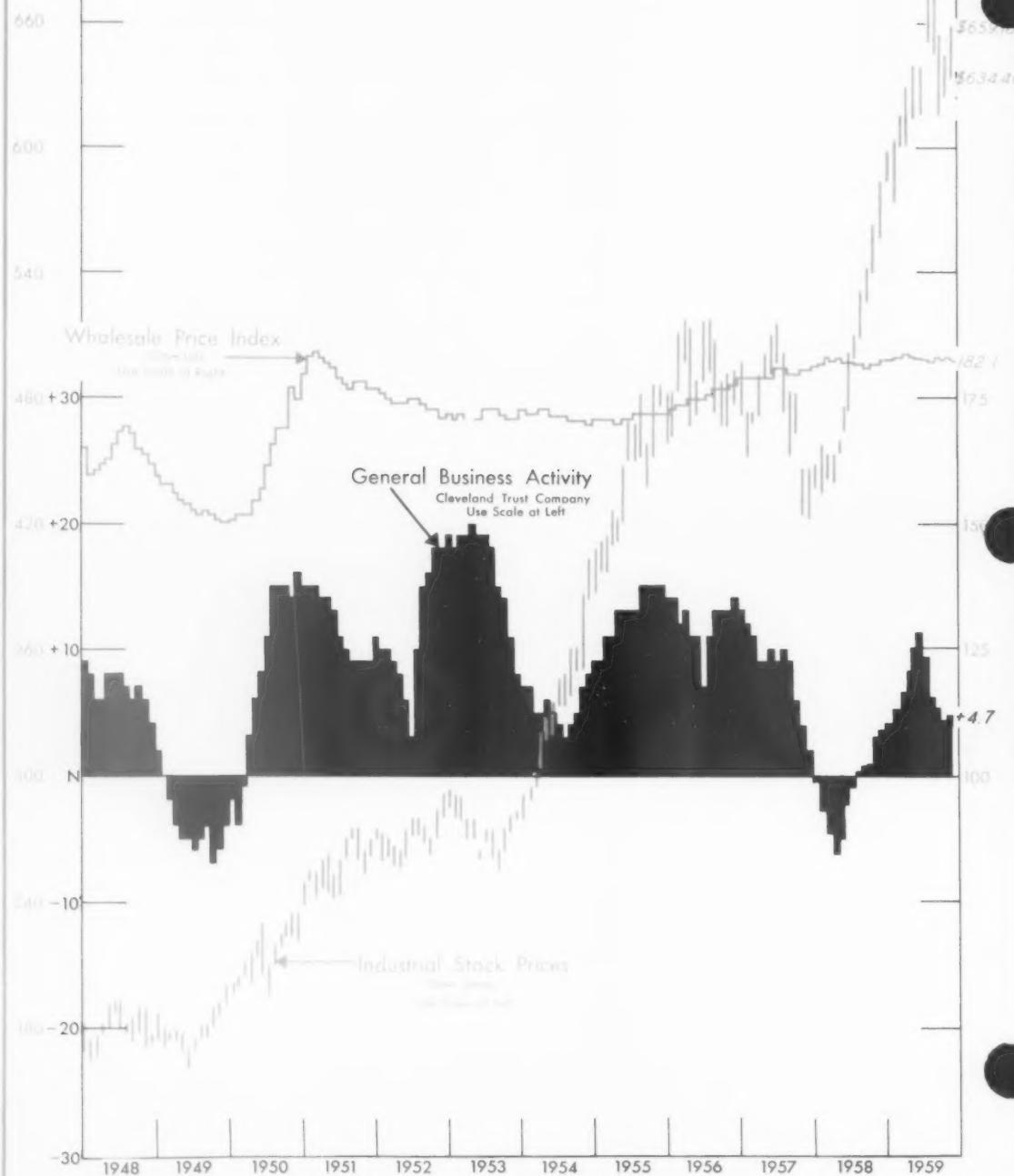
and below it? Since 1955 there has been an increase of at least 2 million households in the United States. Thus, real estate activity has declined in relation to population and household growth.

What about the supply of new houses? During the first 11 months of 1959 there have been 1,294,200 nonfarm dwelling units started. This is 15.7 percent greater than for the first 11 months of 1958 and 3.3 percent higher than for the first 11 months of 1955. The seasonally adjusted annual rate for November was 1,210,000 starts. This was a 3 percent increase from October, due to the resumption of steel production. This actually represented a less than usual sea-

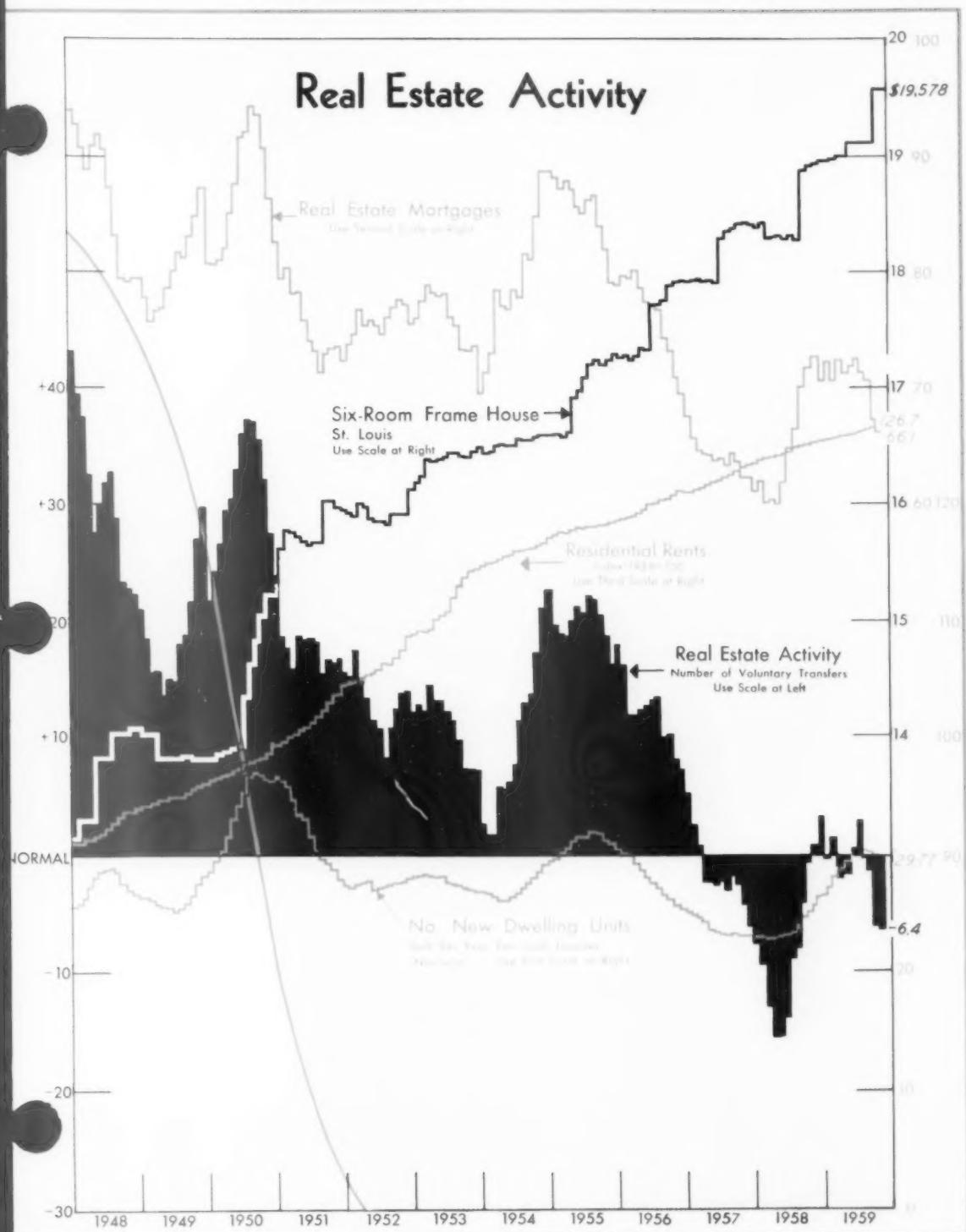
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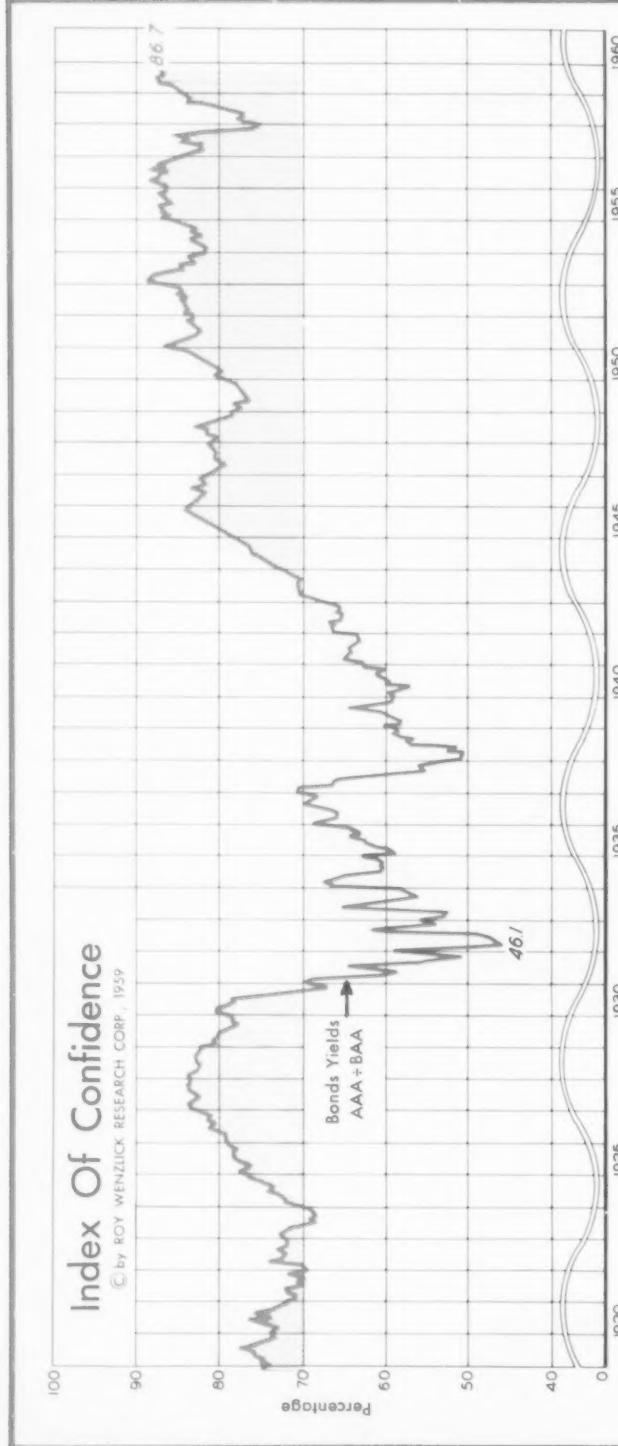


Business Activity



Real Estate Activity





The index of confidence, which is based on a study made many years ago by General Leonard P. Ayres, divides the yield of the very best bonds by that of second-rate bonds.

The fundamental theory behind this index is that when confidence drops, the investing public will pay a higher price, in relation to income, for the best type bonds than it will for a second-rate bond. When confidence is very high, however, there is relatively little difference in the prices the public

will pay for the highest grade and second grade.

On the basis of this chart it will be noticed that confidence is approaching the all-time high. In 1953 and in 1956 the general public was willing to pay better than 88 percent as much for a second-rate bond as it was for a first-rate bond. In January of last year this figure dropped to 74.5, but it has since advanced to 87, declined slightly and recovered to 86.7. This chart illustrates the confidence generally felt about the 1960's.

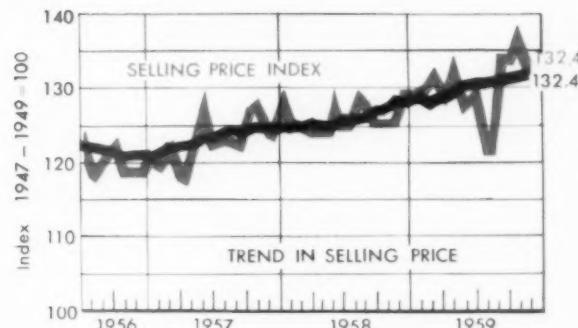
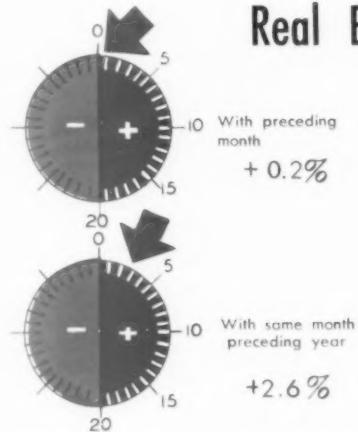
sonal decrease in housing starts. FHA mortgage applications on houses were down 25 percent from October to 41,300 homes, but applications on multifamily projects increased 74 percent to 5,700 units. This is the highest number of applications on multifamily projects reported since last June.

The cost of a six-room frame house increased 3.3 percent during 1959. It is now \$19,578. Apparently profits are keeping pace with increasing costs, for builders have been starting more than 1 million houses each year since 1948. Despite the forecast for a decrease in housing starts next year, it is expected that there will be more than 1 million starts again.

On the last page of the bulletin are charts showing the construction cost per square foot for an average quality ranch house with three different kinds of exterior wall construction and for various square foot ground areas. This house is of relatively simple construction with an average ratio of wall perimeter to ground area. These charts show the diminishing construction cost per square foot for houses with a larger ground area.

As long as personal income continues to increase, the prices of existing houses, rents, and building costs will probably continue to increase.

Real Estate Selling Price Comparisons



DATE	TREND IN SELLING PRICE	PROBABLE SELLING PRICE OF A HOUSE THAT SOLD FOR \$12,000 IN 1947-49 PERIOD	DATE	TREND IN SELLING PRICE	PROBABLE SELLING PRICE OF A HOUSE THAT SOLD FOR \$12,000 IN 1947-49 PERIOD
1947-49	100.0	\$12,000	Jan. '58	125.5	\$15,060
1913	40.1	4,812	Apr. '58	125.9	15,110
1918	34.1	4,092	July '58	126.6	15,190
Mar. '29	73.9	8,868	Oct. '58	128.3	15,395
May '32	34.8	4,176	Jan. '59	129.3	15,515
Apr. '34	44.8	5,376	Feb. '59	128.9	15,470
July '37	40.1	4,812	Mar. '59	129.3	15,515
Apr. '38	42.8	5,136	Apr. '59	129.9	15,590
Mar. '41	40.1	4,812	May '59	131.0	15,720
Oct. '48	104.5	12,540	June '59	131.3	15,755
Oct. '53	119.7	14,360	July '59	131.4	15,770
Oct. '54	122.3	14,680	Aug. '59	131.8	15,815
Oct. '55	125.1	15,010	Sept. '59	132.0	15,840
Oct. '56	121.9	14,630	Oct. '59	132.2	15,860
Oct. '57	125.3	15,040	Nov. '59	132.4*	15,890*

*Preliminary.

